

## 11.6 DISTRIBUTION DECISIONS

### Introduction

One of components of marketing mix that in simplest task transfer the product from the production place to the purchase place to the customer. In other words, the main task of distribution management is placing the goods in hand of potential customers at the right time and place.

Distribution (place) is one of the 4'ps of marketing of the marketing mix. The others are price, product and promotion. Most producers do not sell directly to final consumers. In between them stands a chain of market intermediaries.

**According to Kibera N.K. Defines** "a channel of distribution as a chain of market intermediaries or middle men utilized by a producer or a marketer to make products and services available where and when consumers need them"

**According to Kotler** "Defines marketing channels as sets of independent organizations involved in the process of making a product or service available for use or consumption"

The words of distributor encompass a wide range of different means and refer to different people. There are basically two different types of distributors. At one end of the spectrum, there are general distributors who can provide a variety of different goods in different geographic regions.

On the other side, there are specialist distributors that offer information and technology services and applications of handful products. Public Distributors titles like.

- Wholesaler
- Distributors of general shopping
- Association distributors
- Storekeeper distributors

### Characteristics of Good Distribution System

1. The market price is equals to the cost of production plus a profit for producers, sales agents and shipping costs.
2. Consumer achieve to the required product by spending less time-consuming.
3. Goods are distributed in stores in the shortest time possible.
4. Not allowed to store (store goods in the market only for restore order, continuous and timely supply)
5. Do not let to the sales in high price
6. Install a price tag on all goods
7. Not much difference between large chain stores and retail units
8. Careful and constant monitoring in order to stabilize prices
9. Having complete freedom to meet their needs through the use of the correct pattern.

### Distribution Networks are Include

**1. Agents and Brokers :** Agents and brokers are nearly synonymous in their roles as intermediaries. In fact, when it comes to real estate transactions, they are synonymous to any client, despite the differences in their roles in the industry. In most cases, however, agents serve as an intermediary on a permanent basis between buyers and sellers, while brokers do this on a temporary basis only. Both are paid in commission for each sale and do not take ownership of the goods being sold.

**2. Merchant Wholesalers :** Merchant wholesalers, which are also simply called wholesalers, buy products from manufacturers in bulk and then resell them, usually to retailers or other businesses. Some carry an extensive range of different products, while others specialize in a few products but carry a large assortment. They may operate cash-and-carry outlets, warehouses, mail order businesses or online sales, or they may simply keep their inventories in trucks, and travel to their customers.

**3. Distributors :** Also called functional wholesalers, distributors do not buy products from the producers. Instead, they expedite sales between the manufacturer and retailers or other businesses. Like agents and brokers, they can be paid by commission, or they can be paid in fees from the manufacturer.

**4. Retailers :** Whenever a consumer buys a product from anyone other than the company that makes it, the consumer is dealing with a retailer. This includes corner stores, shopping malls and e-commerce website. Retailers may buy directly from the producers or from another intermediary. In some markets, they may stock items and pay for them only after they make a sale, which is common for most bookstores today.

Any e-commerce website that's not owned by the company that makes a product, which it then sells to a consumer, can also be called a retailer. However with companies such as Amazon, which make their own products and sell them directly to customers in addition to products made by other companies the line between producers and retailers is becoming increasingly blurry.

### Flows in Marketing Channels

1. Product Flow
2. Negotiation Flow
3. Ownership Flow
4. Information Flow
5. Promotion Flow

1. **Product flow** is the actual physical movement of the product from the manufacturer through all of the parties to the consumer.
2. **Negotiation flow** represents the interplay of the buying and selling functions associated with the transfer of title or rights of ownership. Negotiation is a two-way process involving mutual exchange between buyer and seller.
3. **Ownership flow** is the movement of the title of the product from one stage in the process to another.
4. **Information flow** involves two directions - from the manufacturer to the consumer and from the consumer to the manufacturer. This flow includes transportation as information deemed necessary for the actual delivery of the product is communicated to the transportation agents.
5. **Promotion flow** refers to the flow of persuasive communication in the form of advertising, personal selling, sales promotion and publicity. This flow adds the advertising agency as an element of promotion.

### Channel of Distributer

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers or industrial users. In other words, it is the distribution network through which a producer puts his product in the hands of actual users.

The channel of distribution includes the original producer, the final buyer and any middlemen—either wholesaler or retailer. The term middleman refers to any institution or individual in the channel which either acquires title to the goods or negotiates or sells in the capacity of an agent or broker. But facilitating agencies that perform or assist in marketing function are not included as middlemen in the channel of distribution.

This is because they neither acquire title to the goods nor negotiate purchase or sale. Such facilitating agencies include banks, railways, roadways, warehouses, insurance companies, advertising agencies, etc.

## Channel Distributer are Included

1. Wholesaler
2. Retailer
3. The institutional retailers (retail outlets) include departmental stores, multiple shops and mail order houses.
4. Non-institutional retailers include the floating population of street sellers, peddlers, and hawkers.

**1. Wholesaler :** Wholesaler acts as middlemen in the channel of distribution as he buys goods in large quantity from the manufacturer and sells these to retailers in small quantities. His role in distribution of goods is discussed below :

- (a) **Buying and Assembling :** A wholesaler forecasts the demand for goods and assembles different varieties of goods from several manufacturers. Some wholesalers also import goods from foreign countries.
- (b) **Selling and Dispersing :** A wholesaler breaks the bulk so that retailers and users can buy them in small lots. His representatives regularly call on retailers and industrial users/ buyers to distribute the goods among widely scattered people.
- (c) **Transportation :** A wholesaler arranges transportation of goods from producers to his godowns and from there to retailers.
- (d) **Storage :** He holds large stocks and serves as a reservoir and supplies to retailers and helps in stabilizing prices by adjusting supply of goods to their demand.
- (e) **Packing and Grading :** A wholesaler packs and repacks goods in convenient lots and sorts out goods in different grades. He also gives brand names to the products packed and graded by him.
- (f) **Advertising and Sales Promotion :** A wholesaler performs advertising and sales promotion activities to increase the sale of products and also takes the services of experts for this purpose.
- (g) **Financing :** Sometimes the wholesaler buys goods on cash basis from manufacturers and sells them on credit to retailers. In this way provides financial help both to the producers and retailers. If necessary, the wholesaler also provides financial help by way of advance payment to producers.
- (h) **Risk-Taking :** A wholesaler bears risks of changes in demand and prices, bad debts and damage to goods in the course of transportation and storage. By undertaking various risks he simplifies the process of distribution.

**2. Retailers :** Retailers buy goods from wholesaler and sell them directly to consumers. Thus retailers acts as a direct link between the wholesaler and consumers and role in distribution of goods is enumerated below :

- (a) **Wide Choice to Consumers :** The retailer anticipates needs of consumers. He assembles goods from different sources and stocks different varieties of products. Thus, he offers a wide choice to consumers. They can buy according to their purchasing power and requirements.
- (b) **Availability of Goods in Small Quantities and at Convenient Locations :** A retailer provides ready supply of goods so that consumers can buy conveniently and quickly in small lots without any inconvenience of placing advance orders and waiting for supplies. By ensuring uninterrupted and fresh supply of goods.
- (c) **Home Delivery :** A retailer transports goods from wholesalers to ultimate consumers. Some retailers provide free home delivery service to their consumers. Thus they create place utility.

- (d) **Assurance of Regular Supply** : Retailer maintains adequate supply of goods so that consumers are sure of getting regular supply at the time of their need.
- (e) **Credit Facility** : Although retailers mostly sell goods for cash, they also supply goods on credit to their regular customers.
- (f) **Close Interaction with Customers** : A retailer brings new products to the notice of customers and educates them in their uses. A retailer thus, acts as a friend and guide to his customers. Indeed, his interaction with customers is intimate personal nature and thus he is able to provide feedback to wholesalers and manufacturers about consumers' preferences.

**3. Departmental Stores, Multiple Shops and Mail Order Business** : Retailers may be divided into two categories, namely institutional and non-institutional. **The Institutional Retailers** (retail outlets) include departmental stores, multiple shops and mail order houses. **Non-Institutional Retailers** include the floating population of street sellers, peddlers, and hawkers.

**(a) Departmental Stores** : A departmental Store is a big retail store with many departments under one roof. It offers a wide range of products to suit different consumer tastes and preferences.

All the departments are centrally controlled but each department forms a complete sales unit in itself. The examples of such stores in metropolitan cities are Akbarally's and Sahakari Bhandar in Bombay and Spencers in Madras.

**(b) Multiple Shops or Chain Stores** : Manufacturers often use their own retail shops for direct sale of their products to consumers. These retail shops are established as multiple shops operating in the same city or different parts of the country. These shops have identical product display. Bata India Ltd and DCM provide typical examples of multiple shops system. In this type of retail selling manufacturers have control over distribution channel and have First-hand information regarding customers' preferences.

**(c) Mail-Order Business** : These are retail outlets which sell goods by mail only. The mail order house centrally procures products, advertises them and expects prospective buyers to send offers/orders. The products are sent through value-payable post. Mail Order Sales Ltd, Bombay, the seller of 'Bull worker' health aid, is a typical example of such mail order business in India.

### Factors Affecting the Distribution Policy

- 1 The amount of stay away from market and create the ineffective or inefficient communication problems and the lack of precise information on the changes in that market.
- 2 Awareness of the target distribution system and assess the financial resources, organizing the sufficient staff to penetrate the market and organizing resources according to relevant laws and existing distribution channels
- 3 The amount of control over the distributors and classification of distribution channels based on it
- 4 Identify the different distribution channels, including chain stores, wholesalers, retailers and etc.
- 5 Evaluation of the methods of distribution exclusive or special representation in certain areas or the wide distribution method
- 6 The completion of distribution process and describes the duties and responsibilities of each of the intermediaries so that any necessary action not omit a distribution.
- 7 The reviews of terms and the agreement that each intermediaries based on it perform an activity.

### Stages of Design Distribution Channels

Desirable distribution channel is a channel that will meet customers' needs and be competitive. The stages of designing the distribution channel are as follows :

1. **Analyze of Customer Service Needs** : At this stage, the customer needs analyzed carefully, purchase amount, waiting time, the number of suppliers, diversity of products and expected support services for customer are specified at this stage.

2. **Setting Goals and Identify the Limits of Distribution Channels :** The goals of distribution channels are determined at this point according to the characteristics of each product. Decision about whether directly or indirectly through the distribution channel at this point is taken. In addition, in this stage the limitations in the distribution system are characterized. The restrictions are competing firm's distribution channels and laws and regulations governing.
3. **Determine the Available Options (Available Channels Distribution) :** After consideration of the services requested by our customers and distribution channels setting goals, at this stage the available channels in the market should be identified. Types of available intermediaries, the number of required agents, and the conditions and responsibilities of each of the intermediaries can be identified at this stage.
4. **Evaluate and Select Various Options :** Each of them according to three main criteria of economic controls and compliance with the conditions evaluated and reviewed after determining the applicable distribution channels. The results of the assessment appropriate channel or distribution channels should be selected.
5. **Contract and Control :** After determination of the distribution channel or channels required personal in the selected channel should be determined and educated, motivate them and eventually they can be assessed. Since marketing environment and the product life cycle are not fixed, we should always be ready to change provisions and perform corrective actions on the selected channel.
6. **Choice of Distribution Channel Partners :** Before selecting channel members we should paid to assess clients' demands of channels and after the mixed designed channels, the next step is determining a proper distribution channel, evaluation, selection and contract signing with the best channel partners.
7. **Search Method :** For most products and markets, an important source is references and key customer reviews that distributors work with them in the market and also the use of distributor lists in geographical location on the Internet, EU agencies and other resources.

#### Factors of Distribution of Channel

- **Volume Purchase :** Whatever the purchase amount is less, the services that should be offered is more often.
- **Lack of Focus on Market :** Whatever distribution channel is more decentralized, more services should be provided.
- **Waiting Time :** Waiting for immediate delivery means expected services in distribution channels is more.
- **Variation of Goods :** Whatever the composition of the product in channels is more, the requirements service level will be higher.
- **Support and Service :** Whatever the service rate is increased with goods, distribution channels should be more effort to provide better service.

#### Difference between Guarantee and Warranty

**Guarantee :** The guarantee serves as a promise made by the manufacturer, to the buyer, that in case the product below quality, it will be repaired, replaced or the money deposited will be refunded.

- It is Commitment.
- It is applicable to Product, service and person.
- It can either be oral or written.

**Warranty :** Warranty is a written assurance that the facts specified in the product is true and genuine, but if they are not it will be repaired or replaced.

- It is Assurance.
- It is applicable to product only.
- It is generally written and so it is easy to prove.

## Channel Marketing

### Channel Management

- Placement activities evolve around decision or strategies involved in the distribution channels. This is called channel management.
- **Channel Management :** Managing and directing all of the activities involved in getting a product from the manufacturer to the customer.

### Distribution Channels

- **Direct Channels :** Involve a single transaction from a vendor to offer a product for sale to the consumer.
- **Indirect Channels :** Involve multiple, interconnected channel members such as : wholesalers, agents and distributors.

### Channel Members

- **Wholesalers :** People or companies that buy large quantities of products from vendors or manufacturers and warehouse them to resell in smaller quantities to retailers.  
**Example :** Vistar Corporation.
- **Agents :** Agents are representatives (individuals or firms) that have authority to act on behalf of another company or individual to execute the sale of products but are not employees of that company.  
**Example :** Total Sportswear Solutions.
- **Distributors :** Entities that purchase non-competing products, warehouse them and sell them a retailers or direct to consumers.  
**Example :** Commonwealth Digital Office Solutions.
- Add value to the products that retailers sell.
- The retailer is the customer of the channel member, they can receive special services from the channel member (faster delivery, ease in placing orders, special packaging, etc.).
- Need to work cooperatively, with the retailer to help meet the needs of the final consumer.

### Tasks of Channel Management

1. Providing Marketing Information.
  - (a) Every producer is trying to reach and sell to a specific target market for each of its products.
  - (b) Companies rely on market research to determine their target market's needs and wants.
  - (c) Intermediaries are often closer to final consumers than producers themselves.
2. Promoting products - promoting a product, especially a new one, can be expensive.
  - (a) When a producer sell its products through intermediaries the costs and responsibilities associated with product promotion can be shared.
  - (b) Retailer assume a large portion of promotion responsibilities.
  - (c) Shared promotion can lower channel members' individual costs while producing the same results.
3. Negotiating with customers.
  - (a) Producers often don't have the time or ability to negotiate with final consumers on issues such as price, delivery, installation, etc.
  - (b) Producer sells 10,000 flat screen TVs to a wholesaler; wholesaler sells 1,000 to 10 retailers; retailer sells to individual consumers.

- (c) Retailer may offer delivery.
  - (d) All the channel members are profitable and the final consumer receives the product in an efficient, effective manner.
4. Reducing discrepancies.
- (a) Discrepancies = quantity and assortment issues that middlemen can solve.
  - (b) Wholesalers and retailers can break down large quantities into reasonable amounts for final consumers.
5. Financing and risk-taking.
- (a) Moving products through a channel costs money.
  - (b) It takes money to manufacture, to transport and to store them, to promote them, to gather information about target market needs, to extend credit to consumers, etc.
  - (c) When channel members work together, channels will be more effective.

### Channel Management Decisions

- Setting Channel Objectives
  - Meet the needs and wants of their target markets efficiently.
  - Given their products a competitive edge in the marketplace.
  - Indirect distribution (the use of middlemen)
  - Direct distribution (eliminating middlemen in the channel and dealing with final consumers directly)
- Determine Distribution Patterns
  - Ideal market exposure - make product available to each and every customer who might buy it, but they don't want to over-distribute the product and waste money.
  - This is known as distribution intensity.

### Selecting Channel Members

- Determine the types of channel members (wholesaler, retailers, etc.)
- Channel length (total number of channel members)
- Channel member types are based on the nature of the product.
  - Long channel may spread financial risk and allow a product to receive more specialised attention.
  - Short channel may allow a product to reach consumers more quickly.
- Each middleman should :
  - Create product value that the producer or other middlemen cannot or are not willing to provide (shipping, promotion, etc.)
  - Channel the product to its desired target market(s)
  - Have a pricing and promotion strategy compatible with the product's needs
  - Offer customer service compatible with the product's needs
  - Be willing and able to work cooperatively with other members within the product's channel

### Determining Channel Responsibilities

- Some activities must take place within the channel
- Products must be shipped, promoted and sold to final consumer before any profits can be made
- Members must work together appropriately and perform tasks they are best suited for

### Examples

- Middlemen reduce discrepancies by breaking down large quantities and storing products until consumers are ready to buy them
- Wholesaler work with a retailer to ensure that the retailer always has enough of a product in stock
- The wholesaler and retailer work together to determine who is responsible for keeping track of product inventory

### Managing, Motivating and Monitoring Channel Members

- Constant evaluation of the channel members should be done to assess what is working, what isn't, and what can be improved
  - Should members be added or deleted ?
  - Should certain responsibilities be reassigned ?

